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PRIME MINISTER'S OFFICE

Economic Planning Authority

Proposed Directives

for preparing

A Five-Year Development Plan for the National Economy

1965/66 – 1969/70

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INTRODUCTION

In accordance with the decision of the Cabinet Committee for Economic Planning, a proposal of directives for the preparation of the development plans is submitted herewith. It consists of two parts:

1. Directives in respect of the proposed Targets of the National Economy, and in respect of the basic data for the elaboration of the development plans.

2. Directives in respect of the methods to be used for the preparation of the development plans, and in respect of the work procedures.

The targets of the economy, as proposed in this memorandum, are intended to serve only as points of departure for the elaboration of the development plans for the various branches, and as proposed policy measures for the realization of the targets. It will be possible to determine the feasibility of realization of the proposed targets, and the extent to which it will be necessary to propose changes in these targets, only after the development plans for the various branches and the detailed policy proposals have been worked out.

I. TARGETS OF THE DEVELOPMENT PLAN

A. Main Objectives

The following are the main objectives of the development plan for Israel for the years 1965 to 1970:

1. The continued rapid growth of the GNP at an annual rate of 9 per cent. Growth at this rate will enable a high level of employment for a labor force supplemented by immigration and local population increase. National product per capita will grow by about 5 per cent per annum. National income per capita will thus increase by about 30 per cent during the five years.

2. Reduction of the gap in the current account of the international balance of payments. The proposed reduction is from a gap of 480 million dollars in 1962* to one of 300 million dollars in 1969.

3. A substantial rise in the level of general and vocational education.

4. An increase in the proportion of the population resident in areas outside the coastal plain, i.e., in the Negev and Galilee areas.

B. Exogenous Factors

Any proposal of targets and guiding lines for an economic plan must be based upon a series of directives in respect of "exogenous factors". These factors are called "exogenous" because they are primarily determined outside the economic policy system which has a relatively limited effect on them. They, on the other hand, have a major influence on the economic system.

The main exogenous factors on which the proposed targets are based are the following:

1. Increase in Population

The total population will increase by 90–100,000 persons a year. This rate is based on an immigration into Israel of 65,000 persons during 1964, and a yearly average of 50,000 immigrants during the period 1965 to 1969 (see Table 1). The total population will, therefore, reach 3 million by the end of 1969.

2. Capital Inflow

The forecast of capital inflow indicates a gradual decline in the capital inflow to Israel, as from 1964. It may be assumed that capital inflow

* See footnote 1 on page 17.

will decline gradually from about 600 million dollars in 1963 to less than 300 million dollars in 1969 (See Table 9).

3. Defence Expenditure

Defence expenditure will increase at a rate not exceeding that of the growth of the national product.

The burden of defence expenditure on the Israel economy is most heavy, and its share in the GNP is one of the highest in the world (see Table 6).

The proposed targets are based upon the assumption that defence expenditure will increase at a rate similar to that of the GNP. In other words, the proportion of defence expenditure in the GNP will not increase during the coming years.

A rate of increase in defence expenditure greater than that of the growth of GNP will be possible only if additional resources, over and above the expectations for the coming years, can be obtained, either from capital inflow or from domestic production.

C. Summary of Conditions Essential for the Attainment of the Targets

The attainment of the principal objectives based on the exogenous factors indicated above constitutes a very heavy task within the framework of economic policy. It will be possible to attain the targets only if the Government will succeed in ensuring that the following essential conditions will be fulfilled:

1. A slowing down of the annual rate of growth of private consumption to an average of 3.5 per cent per capita.

2. An increase in exports at the rate of 20 per cent per annum.

This greatly exceeds the rate of increase as foreseen under present conditions which is 13 per cent per annum.

The effective measures that will have to be taken in order that these essential conditions be fulfilled constitute a decisive factor in the working out of a development plan and in the attainment of its objectives.

If these conditions do not materialize the gap in the balance of trade may become larger than at present. This, together with the expected decline in capital inflow, could not only result in the reduction of foreign exchange reserve balances held and required for the Israel economy, but would also create a serious financial problem of foreign exchange with all its economic and political implications.

(The forecast attached to the proposed targets includes a computation of the results to be expected in the national economy if the increase in private consumption will continue at the present rate of 5 to 6 per cent per capita per annum, and if exports will increase only at the rate foreseen at present.)

D. Main Assumptions for the Preparation of the Development Plan

1. Population and Labour Force

The increase in population and labour force, which has a great influence on the development of the national economy, is to a large extent dependent on the volume of immigration.

The immigration figures presented in the following table represent the upper limit in the forecast of the Immigration Department of the Jewish Agency.

The forecast of natural increase was prepared by the Central Bureau of Statistics on the basis of the present fertility rates of today's population; the forecasts of immigration and of the expected changes in the composition and age groups of the population were also taken into account.

On the basis of the above assumptions, the forecast of increase of population is as follows:

Table 1

Forecast of Immigration and Total Increase in Population (Yearly Average)

Year	Average Population (Thousands)	Annual Rate of Increase (Percentage)	Immigration gross (Thousands)	Total Increase in Population (Thousands)
1962	2,282	4.6	60	101
1963	2,380	4.3	60	98
1964	2,480	4.2	65	100
1965	2,577	3.9	50	97
1966	2,667	3.5	50	90
1967	2,759	3.5	50	92
1968	2,850	3.4	50	93
1969	2,946	3.3	50	94

Sources: Central Bureau of Statistics, and Department of Immigration of the Jewish Agency.

The expected annual rate of increase in population during the coming years will, therefore, range between 3.3 and 4.2 per cent. By the end of 1969 the population of Israel will reach about 3 million.

As there is a possibility that immigration will increase at a rate greater than that assumed, an analysis will be made – at a later stage of planning – of the relevant effects on the various aspects of the economy, and of the measures to be taken for the absorption of a larger immigration.

The Development Plan will be directed toward an increase in the labour force at a rate substantially higher than the rate of increase in population.

Assumptions sepcified below indicate that it is expected that the demand for labour will be high during the whole period of the Plan. This, as well as increased vocational training, should result in a greater proportion of women participating in the active labour force; this proportion is at present low, compared with other countries. It is also expected that the labour force participation ratio of adults in the age group of 45 and over will increase. On the other hand, a slight decrease in the labour force participation ratio of youths of the age group 14–18 may be expected, as a result of the expansion of secondary and vocational education.

Side by side with the proportion of the labour force within the total population, there will be an increase in the ratio between the number of employed persons and the labour force, owing to the larger demand for labour and the expansion of vocational training.

A provisional forecast of numbers of employed persons, prepared by the Manpower Planning Authority of the Ministry of Labour on the basis of the assumptions indicated previously, follows.

Table 2

Forecast of Employment, Yearly Average, 1964 to 1969

Year	Number of Employed Persons (Thousands)	Annual Rate of Increase (Percentage)
1962	777	
1963	808	4.0
1964	850	5.2
1965	895	5.3
1966	938	4.8
1967	979	4.4
1968	1012	3.4
1969	1046	3.4

Source: Manpower Planning Authority, Ministry of Labour.

As the labour force will probably be one of the factors limiting the development of the economy during the next few years, special importance is attached to its efficient utilization and to the raising of its professional level.

A detailed plan toward this aim will be worked out within the framework of manpower planning and vocational training, based on the expected demand for labour in the various branches of the economy.

2. Product per Employed Person

The increase in the number of employed persons is likely to contribute in itself an increase in the national product of 4 to 5 per cent annually.

In addition, the national product per worker is likely to increase by 4 to 5 per cent each year through increased capital stock per worker, (i.e., investments) and higher labour-productivity.

The total annual rate of growth of the GNP during the years 1965 to 1969 has been estimated at 9 per cent, on the average.

The need to divert an ever-increasing share of the additional product to exports may result in a lowering of the value of the additional product in terms of its foreign exchange value. This may result in a slightly lower increase in the GNP than during previous years.

Higher productivity and improved efficiency are extremely important factors in the attainment of the objectives. It is true that in the past there has been a marked improvement in productivity, but this was made possible because the productivity level in the early fifties was very low. For a further accelerated improvement in the level of productivity, considerable efforts will be required toward increasing the efficiency of production techniques, raising the professional level of management and labour, facilitating mobility of workers among branches and enterprises according to the needs of the economy, improving the utilization ratio of equipment, and enhancing specialization and division of work among enterprises.

It will be necessary to enhance the application of the scientific and technological potential for the development of the national economy, by encouraging closer cooperation between the existing research institutions and the producing sectors of the economy, by widening the scope of research in the enterprises themselves, and also by allocating additional resources to raise the level of scientific research and technical know-how.

One of the important factors influencing productivity efficiency is the extent of concentration upon and specialization in those branches and products in which the economy has, or is likely to have, a comparative

advantage. In a small economy like Israel's, any attempt to disperse production among many branches and products – in order to reach autarky – will lead to inefficient utilization of resources and will thus reduce the total product (viewed in its international value).

Concentration upon and specialization in those branches which are likely to become competitive is one of the main conditions for an efficient production. This tendency will call for increased competitiveness of imported products through further foreign trade liberalization and the reduction of protective tariffs.

Similarly, importance is attached to increased competition among enterprises through reduction of the degree of cartelization, which is a typical trait in many branches.

Within the framework of the development plan, stress will be laid upon detailed measures for increasing productivity and efficiency and for applying scientific and technological research to the needs of economic development.

On the basis of the increase in the number of employed persons and in the product per employed person it may be expected, as already indicated, that the GNP will increase at an annual rate of 9 per cent, on the average. The total national product is thus expected to reach IL. 13,000 million (at 1963 prices)* (see Table 3).

The GNP per capita will increase from IL. 3,200 in 1963 to about IL. 4,500 in 1969 (at 1963 prices).

The sector development plans for production in the various branches will be worked out on the basis of the domestic demand and the forecasts of the increase in exports.

3. Investment

Total gross investment (excluding investment in housing) has increased by an annual rate of 12 per cent during previous years, whereas the GNP has increased by about 10 per cent.

A similar rate of increase in the GNP is estimated for the next few years. However, it may be assumed that the rate of increase in the gross investment will slow down slightly as a result of the change in the composition of investments: the ratio of investments in a number of capital intensive branches such as water and irrigation, shipping and aviation, citrus groves, will decline.

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* These figures, as well as the other national accounts data mentioned hereafter, are intended to show orders of magnitude only. They are meant to provide a quantitative indication of the scope of the problems under consideration.

Table 3

Resources and Their Uses 1962 to 1969
(In IL. millions, at 1963 prices)

	1962 (Actual)	1963 (Provisional estimate)	1964 (Forecast)	Targets					Average annual rate of growth 1964/69 (Percentage)
				1965	1966	1967	1968	1969	
Private Consumption	4,720	5,230	5,790	6,220	6,690	7,170	7,660	8,180	7
Public Consumption	1,600	1,560	1,720	1,840	1,980	2,120	2,270	2,430	7
Gross Investment	2,040	2,120	2,360	2,500	2,690	2,900	3,140	3,390	8
Exports	1,490	1,780	2,010	2,410	2,900	3,470	4,170	5,000	20
Total Uses	9,850	10,690	11,880	12,970	14,260	15,660	17,240	19,000	10
Gross National Product	6,910	7,720	8,500	9,240	10,090	11,010	12,030	13,150	9
Imports	2,940	2,970	3,380	3,730	4,170	4,650	5,210	5,850	12
Total Resources	9,850	10,690	11,880	12,970	14,260	15,660	17,240	19,000	10

The required annual rate of increase in investment for the years 1965 to 1969 (excluding investments in housing) is estimated at 10 per cent. As a result, the economy's capital stock will grow during that period from about IL. 13,000 million at the end of 1964 to IL. 20,000 million at the end of 1969, that is, an annual growth of 9.5 per cent.

Investments in housing amounted in the past to about one-third of total gross investments. The scarcity of resources in the economy will demand measures to prevent excessive expansion in building that is intended to raise the standard of housing of the high-income brackets.

As it is necessary to provide housing for new immigrants and to improve the housing conditions of others whose level of housing is especially poor, an increase in the volume of building has been taken into account, which will enable a total yearly increase of 7 per cent in the volume of existing housing units. Within this framework, high priority will be given to building for housing new immigrants and for eliminating slum areas.

On the basis of what has been said above, total gross investments are expected to increase from IL. 2,400 million in 1964 to IL. 3,400 million in 1969.

Table 4

Estimate of Gross Investment
1962 to 1969
(in IL. millions, at 1963 prices)

	1962	1963 (Provisional estimate)	1964 (Forecast)	Targets					Average yearly rate of increase 1964/69 (per cent)
				1965	1966	1967	1968	1969	
Gross Investment (excluding housing)	1,390	1,460	1,670	1,840	2,020	2,220	2,450	2,690	10
Investment in Housing	650	660	690	660	670	680	690	700	
Total Gross Investment	2,040	2,120	2,360	2,500	2,690	2,900	3,140	3,390	7.5

4. Private Consumption

In the past, private consumption has increased at an annual total rate of 10 per cent on the average, or 6 per cent per capita. This rate of increase did not diminish even during the two years following the devaluation, 1962 and 1963.

A continuation of this rate of increase in private consumption would not only impede the narrowing of the gap in the current account of the balance of payments, but would actually widen it considerably. The increase in the GNP would then be completely swallowed up by the increase in private and public consumption and, as a result, the economy would not be able to divert resources to the expansion of exports at a rate conducive to narrowing the gap in the foreign trade balance. The scarcity of production factors, especially of skilled workers, has already limited the possibilities of expanding exports in certain branches. These limitations may become even more serious in future.

The attainment of the objectives of the Development Plan is, therefore, dependent on a considerable slowing down of the rate of increase in private consumption. It should be emphasized that an excess of one per cent in the annual rate of increase in private consumption, summed over the Plan years, would mean an increase of the deficit in the balance of payment of about 100 million dollars in 1969.

To attain the objective, the annual rate of increase of private consumption per capita must be slowed down from 6 per cent to 3.5 per cent.

The need to raise the consumption level of the low-income groups at a rate higher than average will necessitate limiting the increase in consumption of the high-income groups to less than the annual average of 3.5 per cent per capita.

The principal means to achieve a diminishing increase in private consumption is a marked growth in the rates of private saving. However, a higher level of public saving will doubtless also be required.

The slowing down of the rate of increase in private consumption will require an over-all examination of incomes policy in respect to the relative rates of increase in levels of profits and wages, and an analysis of the relation between the taxation policy and the increase in private consumption.

Additional measures to obtain a slowing down of private consumption will have to be investigated during the preparation of the Development Plan.

5. Public Consumption

Among public consumption items a decisive component is defence expenditures. As was mentioned above, the burden of defence expenditures

in the Israel economy, as related to national product, is one of the highest in the world, if not the highest (see Table 6). As compared with other countries with a similar per capita product level, the burden of defence expenditures in Israel is considerably heavier.

The rate of increase in defence expenditures will be a major factor influencing the possibilities of attaining the development objectives. However, the future level of defence expenditures represents a factor exogenous to the economic system and should be considered, to a large degree, as one of the given data.

In the national accounts, the increase in defence expenditures has been estimated at a rate similar to that of the increase in national product, i.e., 10 per cent annually.

Defence expenditures could be increased at a higher rate than that of national product growth only by diverting additional resources either from capital import or from domestic production at a higher rate than that estimated in this proposal of targets.

One of the major objectives of the Development Plan is raising the level of education and vocational training. In addition to its social value, the raising of the educational level has also a great economic value, since an investment in "human capital" will, in the long run, contribute to the advancement of the economy in much the same way as investment in material assets.

Within the framework of this objective, particular emphasis will be laid on raising the educational standard of children from low-income families whose economic condition prohibits their enjoying the benefits of general and vocational education. Considerable resources will be made available to close the gap in the educational and cultural level between different strata of the population.

Another component leading to increased public consumption is expenditure on interest payments to foreign countries. If the external government debt will continue to grow, the result will be increased interest payments.

The above factors indicate that it will be necessary to limit the rate of increase of the other items of public consumption.

During the last five years total public consumption has increased at an average annual rate of 7% (or an annual average of 3.5% per capita). Defence expenditures have increased at an annual rate of over 10%, but public consumption excluding defence has increased at an average annual rate of 6%.

It is proposed to fix the average annual increase in public consumption in the coming years at 7% (or about 3.5% per capita) on the assumption

that defence expenditures will increase at an annual rate of 10%, and public consumption excluding defence will increase at an annual rate of 4%, and not 6%, as in the past. Curtailing of public consumption to an annual rate of 4% – while at the same time attaining the expansion in education laid down in the objectives – will of course require a severe reduction in the rate of increase in public consumption, other than defence and education.

A detailed program proposal for the years 1965 to 1970, for public services, particularly education, health and welfare, will be prepared in the framework of the Development Plan.

6. Saving

During the last two years net national saving (after deduction of depreciation) was still very small, or almost nonexistant, whereas during the preceding years there had been considerable negative national saving. This is the combined result of different factors:

– A positive personal saving existed indeed, but only at a rate of 4 to 5 per cent of disposable income.

This rate, as compared with other countries, is not sufficiently high.

– Business saving (reinvestment of company profits) is still small.

– The public sector, however, has a negative saving, owing to the fact that national agencies such as the Jewish Agency and other institutions – by their very nature – finance at least part of their expenditures on public consumption out of capital import. This in itself, from the point of view of the national economy, contributes to a negative saving, when not set off by sufficient domestic saving.

The elimination of the negative saving and the beginnings of positive saving in the national economy indicate an upward trend in the rate of saving. Among the factors which have contributed to this trend during the last two years are the price stability and the expectation of its continuation, and the increased incentives to save through government and other savings schemes.

Owing to the required increase in investments, at a time when import surplus is expected to diminish, domestic saving will have to rise at a considerable rate. A large part of the additional gross saving required will be needed to finance the replacement of capital goods whose depreciation is continuously increasing. In addition, a substantial growth in net saving will be required for the financing of the necessary expansion in net new investment.

Table 5

Defence Expenditures in Various Countries (1961)

Country	Gross National Product per Capita, in $	Government Expenditure on Defence per capita, in dollars	Government Expenditure on Defence as Percentage of GNP	Government Expenditure on Defence as Percentage of its Total Expenditures
a. Countries with high per capita income				
United States	2,830	260	9.2	36.0*
Canada	1,998	83	4.2	26.6
Sweden	1,782	75	4.2	17.0
Switzerland	1,665	46	2.7	33.5
West Germany	1,422	42	3.0	14.8
Britain	1,415	93	6.6	22.4
Denmark	1,415	34	2.4	15.6
France	1,361	74	5.5	23.3
Norway	1,336	43	3.2	15.4
Finland	1,108	30	2.7	7.4
Holland	1,045	47	4.5	20.2
Italy	709	21	3.0	15.2
b. Countries with medium per capita income				
Japan	506	4.8	1.0	8.2
Greece	435	20.0	4.5	24.4
Turkey	210	4.8	2.8	17.0
Burma	61	3.9	6.5	32.8

* Defence expenditures as percentage of total expenditures of Federal Government and States.

Sources: U.N. Statistical Yearbook, 1962
U.N. Yearbook of National Accounts Statistics, 1962

Table 6

Financing of Gross Investment
1962 to 1969
(in IL. millions, at 1963 prices)

	1962 (Actual)	1963 (Provisional estimate)	1964 (Forecast)	Targets				
				1965	1966	1967	1968	1969
Gross Domestic Saving	590	930	990	1,180	1,420	1,720	2,100	2,540
Import Surplus	1,450	1,190	1,370	1,320	1,270	1,180	1,040	850
Total Gross Investment	2,040	2,120	2,360	2,500	2,690	2,900	3,140	3,390
Gross domestic saving as percentage of gross investment	29	44	42	47	53	59	67	75

Whereas in 1962 gross domestic savings contributed a quarter of total gross investment and capital import three quarters, gross savings in 1969 will have to finance about three quarters of gross investment (Table 6). This will imply a large increase in the rate of personal saving. Great importance is also attached to raising the level of business saving, so that the companies will be able to finance a larger part of their investments out of reinvestment of their profits.

In addition to the above, there is no doubt that public saving on a large scale will also be necessary.

Within the framework of the Development Plan it will be necessary to suggest and specify measures toward a substantial rise in the level of domestic saving.

7. Balance of Payments

The rapid growth of GNP has led to a reduction in the proportion of the import surplus to the total resources available to the economy, which is one of the major indicators of the extent of dependence of an economy on capital imports. Nevertheless, there is no obvious trend toward a reduction in the absolute sum of import surplus.

It is true that in 1963 import surplus did decrease by a substantial amount, but this was due to the particularly favourable circumstances that prevailed in 1962 and 1963.

Among the objectives of the Development Plan, high priority is attached to the gradual narrowing of the gap in the balance of payments for goods and services.

The narrowing of the gap is more than a necessity resulting from the decline in capital imports. The advancement towards economic independence is in itself one of the central targets of the Development Plan.

a. Exports

Since the possibilities of economical replacement of imports by domestic production are limited, the main way to narrow the gap is through a rapid expansion of exports.

The required rate of expansion of exports necessary to achieve a gradual narrowing of the gap is about 20 per cent per annum. This rate greatly exceeds the rate of growth of exports foreseen under present conditions. According to a preliminary forecast of exports from the different branches of the economy, the annual increase will total about 13 per cent. The divergence between the foreseen rate of growth and the required one according to the Development Plan's objectives is indicative of the strenuous efforts which will have to be made in order to reach the targets set by the Plan. This divergence appears to be particularly large when it is appreciated that the main contribution to bridge it will have to come from the export of industrial products.

Though in the past exports did rise at a rate similar to that now required, it should be pointed out that the absolute magnitude of additional exports required is continually increasing and that this addition will have to come from marginal and more difficult branches than in the past. As a result, the economy will have to divert more and more resources for the substantial increase in exports.

The expansion of exports at the required accelerated pace depends on the following conditions:

(1) Reaching an agreement with the European Common Market in order to prevent serious damage to Israel's export possibilities to the Common Market and to its affiliated countries by custom duties and other restrictions.

(2) A substantial increase in domestic savings, which will restrain the rate of growth of private consumption, thus releasing potential resources for the needed expansion of exports.

(3) The prevention of raises in domestic production costs, which might impair the competitive power of Israel export products abroad.

(4) A greater selectivity of investments in those production branches which have good prospects for the export of their products.

(5) Improvements in the methods of organization and marketing of exports.

When the development plans for the specific branches are worked out, high priority should be given to investments in those branches and products which will contribute to the expansion of exports. It will also be necessary to examine the measures to be taken to secure other conditions required for the rapid expansion of exports.

b. Imports

Import requirements are determined by the rate of growth of GNP and of investments in the economy, as well as by their structure. Continued rapid growth of the GNP will demand a rapid increase in imports.

Lower imports may be expected in a number of branches as a result of substitution by local production. However, such possibilities are rather limited, because efficient use of resources warrants import substitution only in those branches where it will be possible to do so at reasonable production costs.

The policy of liberalization of imports and of curtailing protection of domestic production may lead to an increase in imports of certain commodities. However, the resultant loss will undoubtedly be compensated for by directing the limited production factors to those branches where the most efficient production can be achieved.

As was mentioned above, it is imperative that the rate of growth of private consumption be restrained so that the resources required for export and investment can be released. Another function of the decrease in the rate of growth of private consumption is to reduce the rate of increase in imports. It should be remembered that on the average the import component of private consumption is about 20%, which means that a reduction in private consumption by one Israel Pound will enable a reduction in imports of about 20 agorot. The conclusion to be drawn is that the policy to limit private consumption should be aimed, in the first instance, toward checking the increase in these items of private consumption which have the highest import component. Appropriate measures of policy should be taken to divert private consumption from goods and services with a high import component to goods and services with a low import component.

c. Import Surplus

Table 7 shows clearly that one of the proposed central objectives is the narrowing of the gap between exports and imports of goods and services.

The reduction proposed is from a gap of 480 million dollars in 1962* to about 300 million dollars in 1969. The reduction is to be gradual from 1965 onward.

Table 7

Targets of the Balance of Payments
1965 to 1969
(Million dollars)

	1962 (Actual)	1963 (Provisional estimate)	1964 (Forecast)	1965	1966	1967	1968	1969	Average annual increase 1964 to 1969, in %
Exports	500	590	670	800	970	1,160	1,390	1,670	20
Imports	980	900	1,130	1,240	1,390	1,550	1,740	1,950	11.5
Import surplus	480	400	460	440	420	390	350	280	

d. Capital Imports

The capital imports forecast for the years 1965 to 1970 is based on the following assumptions as to its sources:

(1) Personal restitutions will continue until 1967 at a rate only slightly lower than at present, and will then decline at a steep rate.

(2) Reparations from Germany will cease in 1965.

(3) There will be some decline in the loans from the United States.

(4) Gross proceeds from sales of Israel Bonds will increase by 5 million dollars per annum, but redemption of such bonds will lead to a substantial decline in the net receipts.

* Import surplus in 1963 is estimated at about 400 million dollars, but that year's reduction in the gap was due partly to particular factors, such as smaller imports of services for defence purposes, and also particularly high returns for citrus exports. The expected import surplus for the year 1964 will reach about 460 million dollars.

(5) Private investments from abroad will decline somewhat from the 1963 level, but they will continue to flow at a considerable rate also during the coming years.

(6) Other loans will total on the average about 30 million dollars per annum net. This estimate includes, among others, loans from the World Bank and other loans on relatively favourable terms.

The present capital imports forecast, for the years 1965 to 1969, assumes that the economy will continue to get loans from abroad, which, after deduction of repayments on loans raised in previous years, will leave a net sum of about 80 million dollars a year, on the average. As a result, Israel's external debt will grow considerably.

The increase in the external debt will, of course, entail also increased annual payments of interest, in addition to the repayment burden put on the economy for later years, when the debts will become due.

Table 8

Estimate of Capital Imports
1965 to 1969
(Million dollars)

	1962	1963	1964	1965	1966	1967	1968	1969
Unrequited Transfers	334	323	301	291	255	240	200	180
Investments and long and medium term loans	239	175	211	212	166	171	181	113
Total capital imports	573	498	512	503	421	411	381	293

Source: Ministry of Finance, Foreign Exchange Division.

e. Foreign Exchange Reserves

A comparison between the expected import surplus and the forecast of capital imports shows that, if the proposed targets are realized, there will not be any substantial change in the volume of foreign exchange reserves during the period 1965 to 1969.

Israel's foreign exchange reserves at the end of 1962 were about 400 million dollars, which amounts to about half the annual expenditures on imports.

While the volume of imports will grow in the coming years, the proportion of the reserves will diminish.

Table 9

Capital Imports, Import Surplus and Changes in Foreign Exchange Reserves 1962 to 1969 (Million dollars)

	1962	1963	1964	1965	1966	1967	1968	1969
Capital imports	573	498	512	503	421	411	381	293
Less: Import surplus	480	400	460	440	420	390	350	280
Changes in foreign exchange reserves	+93	+98	+52	+63	+1	+21	+31	+13

8. Incomes Policy

One of the objectives of the Development Plan is to reduce the inequality in the disposable income of the various income groups.

However, a number of limiting factors in respect of incomes policy have to be taken into account.

One of the necessary conditions for the attainment of the targets is a considerable increase in the level of personal saving and the creation of a large public saving, in view of the need to limit the growth of consumption without impeding the growth of the GNP. Fulfillment of this condition will depend to a large extent on incomes policy.

Another function of incomes policy is to improve productivity through efficient allocation of resources. Therefore, the mechanism of wages and profits – which represent the payments for the use of production factors – must function in such a way as to ensure their efficient use.

In addition, incomes policy must prevent the creation of inflationary pressures which could impede the improvement in the balance of payments, the increase in savings, and the efficient channeling of investments.

The attainment of the objective of a more equitable distribution of income, constrained by these various limitations, calls for an incomes policy on the following lines:

- It will be necessary to prevent any increase in the average wage rates, as well as the rates of profits, that is over and above the increase in productivity. Similarly, excessive profits derived from cartelization or monopoly, or from speculation in land and real estate, should be prevented.

- The inequality in the distribution of disposable income should be reduced through a policy of taxation and relief. To this end action should be taken also in the form of public services, such as education, health, etc.

- Within the framework of the Development Plan it will be necessary to examine the subjects raised in respect of incomes policy and to work out detailed proposals for Government policy.

9. Increase in the Proportion of Population in the Galilee and the Negev.

One of the objectives of the Development Plan is to avoid further over-concentration of population in the centre of Israel and to ensure a larger proportion in the other regions, especially in Central Galilee and the Negev.

The increase in population in areas outside the centre will require larger investment per employed person than that required for additional workers in the centre of the country. The objective of increase in the proportion of population in the Galilee and the Negev areas will thus require a larger allocation of resources which would otherwise have been diverted to other uses.

At present 72 per cent of the total population of Israel are concentrated in the coastal plain (between Nahariyya and Ashqelon). The proposed objective calls for a reduction in the proportion of the population in the coastal plain to 68 per cent by 1969, with a respective increase in the other regions.

This objective implies a marked change in the distribution of the additional population, of whom about 40 per cent will have to be directed to areas other than the coastal plain, particularly to the Galilee and the Negev. This means not only directing a considerable proportion of the new immigrants to development regions, but also drawing veteran residents to those regions. High priority should be given to development areas with regard to investments for industry and other branches. It will also be necessary to improve the level of services in the development regions considerably.

During the coming years it will be necessary to allocate resources to strengthen existing development towns which have not yet been well established economically and socially. Priority will be given to the strengthening of such existing development towns, rather than to the establishment of new towns.

In order to reduce dependence on relief works, the main sources of employment for the absorption of additional inhabitants in these regions, will have to come from expanded industrialization in these regions.

Within the framework of the overall Development Plan, detailed regional programmes will be worked out to ensure full coordination between the physical, and the economic and social planning.

Appendix

FORECAST OF ECONOMIC DEVELOPMENTS IF PRESENT TRENDS SHOULD CONTINUE

The above proposal of targets is dependent on the fulfillment of a number of essential conditions, as pointed out on page 3, and in particular upon the restriction of the growth of private consumption per capita to a rate of 3.5 per cent, and upon the increase in exports over and above the rate foreseen under present conditions.

If these essential conditions are not fulfilled, the forecast in respect of the major aspects of the economy will, of course, differ from the proposed targets.

In order to point out the magnitude of the divergence between the proposed targets and the forecast based upon continuation of the present trends, a forecast has been computed on the basis of the following assumptions:

1. Private consumption, during the years 1964 to 1967, will grow at a rate of 6 per cent per capita, which is similar to the present rate of increase. During the years 1968 and 1969 the rate of increase of private consumption will decline to 5 per cent per capita, due to the expected decline in personal restitutions after 1967.

2. Total exports will increase at an annual rate of 13 per cent only, according to the present forecast.

It should be emphasized that these two assumptions are interrelated.

Continued rapid increase in private consumption would swallow up a large share of available resources and would prevent exports from increasing more rapidly than foreseen. This interrelation will become particularly clear in the light of the fact that in the coming years a serious limitation is likely to occur with regard to manpower, especially of skilled labour. Under such circumstances the restriction of the growth of private consumption is an essential condition, although in itself it is not sufficient to increase the rate of growth of exports.

The volume of imports foreseen and the other components of the national accounts have been computed on the basis of the above assumptions (see Table 9). According to the results thus obtained, the gap in the foreign trade balance of goods and services would become much larger. The expected gap would total about 600 million dollars in 1969, as compared with 480 million dollars in 1962 *. The increase in the gap during this period would result not only in the liquidation of all foreign exchange reserves, but would require a much larger increase in foreign exchange loans than has been taken into account in the Proposal of Targets. Even if it would be possible to obtain additional loans of such volume, the increase in debts would greatly increase the burden on the economy of interest payments, in addition to the burden of repayment of the loans in the future.

This forecast stresses the necessity to adopt efficient policy measures, directed towards ensuring the attainment of the conditions essential to prevent an increase in the gap of the foreign trade balance over and above the one stated in the targets.

* See footnote on page 17.

Table 10

Forecast of Economic Developments, if Present Trends Should Continue
Resources and Their Uses, Exports, Imports and Import Surplus
1962 to 1969
(IL. millions, at 1963 prices)

	1962	1963	1964	Targets					Average annual rate of increase 1964 to 1969 (%)
				1965	1966	1967	1968	1969	
Private consumption	4,720	5,230	5,790	6,380	6,990	7,670	8,320	9,030	9 (6% per capita)
Public consumption	1,600	1,560	1,720	1,840	1,980	2,120	2,270	2,430	77
Gross investment	2,040	2,120	2,360	2,650	2,880	3,160	3,350	3,680	9
Exports	1,490	1,780	2,010	2,270	2,570	2,900	3,280	3,700	13
Total uses	9,850	10,690	11,880	13,140	14,420	15,850	17,220	18,840	10
Gross nat'l product	6,910	7,720	8,500	9,410	10,300	11,300	12,240	13,350	9.5
Imports	2,940	2,970	3,380	3,730	4,120	4,550	4,980	5,490	10
Total Resources	9,850	10,690	11,880	13,140	14,420	15,850	17,220	18,840	10
Exports (million $)	500	590	670	760	860	970	1,090	1,230	13
Imports (million $)	980	990	1,130	1,240	1,370	1,520	1,660	1,830	10
Import surplus (million $)	480	400	460	480	510	550	570	600	

II. DIRECTIVES FOR THE PREPARATION OF SECTOR DEVELOPMENT PLANS

A. Introduction

The preparation of the Development Plan will be based on the sector development plans, which will be prepared by the different Government Ministries according to their area of responsibility. The plans will be based on the directives submitted by the Economic Planning Authority and the recommendations of the different inter-ministerial committees dealing with the specific branches of the economy and with policy matters. The committees are being set up for this purpose in accordance with a decision of the Cabinet Committee for Economic Planning.

An Inter-ministerial Coordination Committee was appointed by the Prime Minister and is composed of the heads of the planning units in the different Government Ministries or their economic advisers. It will serve as a co-ordinating and advisory board to ensure that uniform planning methods are used in discussing the professional economic planning problems arising in the course of the work, and in coordinating the preparation of the plan during its various stages.

The Development Plan to be submitted to the Government by the Economic Planning Authority will deal with three major subjects:

Objectives of the planning;

Recommendations on policies and measures to attain the objectives;

Development plans for the various sectors of the economy.

The following general directives apply to the preparation of sector development plans. They will serve as a general framework for the preparation of more detailed directives to be issued by the Authority, together with the Government Ministries and the Coordination Committee, after the general directives submitted here will be approved. In the detailed directives more detailed definitions will be framed, as well as uniform working methods for all sectors that will permit the preparation of a coordinated overall Development Plan for the Israel economy as a whole.

For the preparation of the directives we have had recourse to previous reports prepared by the Budget Division of the Ministry of Finance and to the work programmes of the Planning Division in the Ministry of Trade and Industry.

B. Directives in Respect of Outline of Sector Plans

The aim of the sector development programme is to determine a framework – for the application to the various sectors of the economy – of the objectives of the overall plan, and of the policy measures required for the attainment of these objectives. The sector development programmes will, therefore, constitute a proposal for Government policy in respect of the various branches, in the light of the objectives of the Development Plan and the economic policy principles.

The sector development plans will be prepared by the planning units in the different Government Ministries, who will work out detailed programmes and a summary for each sector*. The following operations will be carried out for each branch:

(a) An economic evaluation of the profitability of the branch and its contribution to the national economy, and of its future development possibilities.

(b) A definition of detailed targets of development of the branch, on the basis of the general development objectives of the economy until 1970. (In those branches that require planning for a longer period, general targets will be prepared also for the development after 1970.)

(c) A detailed proposal of specific measures that the branch under discussion requires to attain its targets. Such measures, at a later stage, will be coordinated with the overall policy recommendations to be prepared by inter-ministerial committees to be set up for this purpose.

After completion of the branch analysis and the evaluation of the relative profitability of the branch and its future development possibilities, development targets will be set for each branch, in quantitative terms, in respect of the following subjects:

1. The value of production for the local market;
2. The value of exports;
3. The regional distribution of the branch.

Similarly, the measures to be taken to attain the targets in each branch will be outlined in respect of the following subjects:

1. Size and source of investments required;
2. Manpower and required vocational training;
3. Productivity and efficiency;

* In respect of the degree of detail and classification, see page 36.

4. Degree of competitiveness;

5. Research and know-how;

6. Marketing and services;

7. Other specific measures in the branch under discussion.

In addition, mention should be made of the limiting factors that prevent each of the branches making a larger contribution over and above the planned targets (for example, from the marketing potentialities it might be possible to expand the export of a certain branch by a higher percentage than that indicated in the programme, but in view of an expected shortage of skilled workers such expansion should not be taken into account). The estimated quantitative volume of the limiting factors, and the estimated "additional contribution" to the targets planned if the limiting factors are removed, should be noted for each of the branches.

More details under the main subjects which should be included in the development programme of each branch are listed below;

1. Output (for local market and for export)

a. The expected increase in domestic demand, both final demand and demand for intermediate products.

b. Forecast of imports (based on the programmes for import substitution and liberalization pertaining to the products of the branch).

e. Forecast of exports under existing conditions, and quantitative target for expanded exports.

d. Measures proposed for the promotion of exports of the branch's products up to the planned expanded target (i.e., specific measures for the branch under discussion).

2. The regional aspects of the programme:

a. The degree to which the branch is suitable for diversion of new and existing enterprises to development regions. Appropriate regions should be suggested and an estimate prepared of the number of workers who could be employed in such regions.

b. Means should be proposed to divert enterprises of the branch to development regions (i.e., specific means for the branch under discussion. General measures for dispersion of population will be worked out by the Committee for Dispersion of Population).

3. **Investments**

a. Forecast of required investments (based on capital-output coefficients and engineers' estimates in respect of new investments, and programmes to reduce excess production capacity, in so far as it exists. (See also paragraph 5 below).

b. Outline of sources of financing (Development Budget, other public budget, business saving, domestic capital market, foreign investments), as well as details of measures required for the realization of the financing programme (in so far as there is a need for specific measures for the branch under discussion).

The degree of priority of the branch for obtaining loans from the Development Budget, or foreign loans obtainable with the assistance of the Government, will also be determined under this heading. The order of priority will be fixed within the framework of the sector (industry, agriculture, etc.). The place of the branch in the overall priority list for the whole economy will be determined after the material on the various branches of the economy has been compiled.

4. **Manpower**

a. Forecast of required manpower, by profession and vocational level (according to coefficients and engineers' estimates, and taking into account prospects of higher efficiency and technological changes. See also below). These requirement forecasts will serve for comparison with the forecast of expected supply of manpower, by professions and vocational level, which the Manpower Planning Authority in the Ministry of Labour is preparing.

b. In case of shortage or surplus of workers, a proposal will be worked out – at a later stage – for measures to match demand with supply (mainly in respect of measures connected with the demand side, such as technological and structural changes. A proposal for measures in the area of supply of manpower, programmes for vocational training, increased rate of participation in the labour force, etc., will be prepared by a subcommittee of the National Council for Manpower, which will be set up for this purpose).

5. **Higher efficiency and rate of capital utilization, and structural improvements**

a. On the basis of the branch analyses, quantitative objectives for improving efficiency will be determined, in terms of rate of reduction in production costs. Also objectives in respect of structural defects (size and scale of enterprises, production redundancy, non-mechanized production, etc.) will be decided upon in the light of the branch analyses.

b. Details of the measures suggested to attain these aims in the area of higher productivity, utilization rate of capital invested, and of structural improvements.

6. Increased competitiveness and liberalization

a. Targets will be set for increased competitiveness in the branch, and measures proposed for reducing the degree of cartelization in production and marketing, and other specific measures for the branch under discussion.

b. Possible influences of import liberalization of commodities produced by the branch and of commodities used by the branch will be examined. Ways will be suggested to avoid undesirable influences on employment and future development prospects of the branch (this also refers to measures specific to the branch, within the framework of the general import liberalization programme).

7. Research and development

Detailed objectives will be fixed in the area of promotion of research and know-how, and measures proposed to attain them.

8. Marketing and services

On the basis of the branch analyses, targets and measures will be suggested for improving the wholesale and retail marketing systems, both as regards improvement in the quality of services and reduction of costs.

9. The limiting factors

A quantitative, or at least a qualitative, appraisal will be made of the factors limiting further development of the branch over and above the set targets towards the attainment of the objectives of the economy. An estimate will be made of the additional contribution to the development targets of the economy if these limiting factors can be overcome.

10. Other objectives pertaining to the branch and means to attain them

If there are targets pertaining to the branch that have not been discussed in the previous paragraphs, they will be indicated in detail together with the means to attain them.

It is, of course, impossible to prepare a branch development plan without thorough branch analysis, nor should the large amount of work involved in such a task be underestimated. Nevertheless, efforts should be made to include in the first Development Plan to be submitted to the Government detailed and well-founded proposals for branch development policy for a number of branches, which are in need of such policy as first priority (shipping, electronics, pharmaceutics, minerals, water, etc.), and less

well-founded proposals for other branches. Efforts should be made to complete branch development plans for all branches of the economy gradually within a period of two years.

The degree of detail and depth of the work for each of the branches, will not, as indicated above, be uniform at this stage and will be decided upon by the various Government Ministries, in coordination with the Economic Planning Authority.

C. Organization of the Work

Sector planning will be carried out by the various Government Ministries, as indicated above, within the scope of their responsibility, according to the directives of the Economic Planning Authority and to a time schedule arranged in cooperation with the Economic Planning Authority.

Inter-ministerial committees, to be set up for each sector, will serve as guiding and advisory boards for the preparation of the sector development plans. As a rule, each Sector Committee will be headed by the respective Minister, by the Director-General of the Ministry, or by a first-class expert. The Committee will consist of representatives of the Ministry, representatives of other Ministries connected with the same sector, representatives of the Economic Planning Authority, and experts in the field.

The material for discussion by the Committee will be worked out by the planning unit of the respective Ministry, in cooperation with the Planning Authority.

Coordination between the sectors, and the consistency between the sector development plans and the Development Targets, as well as policy measures, will be examined by the Economic Planning Authority, in consultation with the planning units of the various Government Ministries.

Work procedures for branch planning will be as follows:

(a) The Economic Planning Authority will appoint economists in charge of each main sector who will also serve as a referent to the Ministry dealing with the relevant sector. Correspondingly, each of the Ministries will appoint a person in charge of coordination with the Economic Planning Authority.

(b) During the following weeks each Ministry will prepare a survey of its own activities in the field of sector planning. The work programmes of the various Ministries in this field will be compliled together.

(c) The Planning Authority will prepare, in consultation with the Ministries and with the Inter-ministerial Coordination Committee, detailed directives and outlines adapted to each sector for the preparation of the sector development plans. These directives will include:

1. Directives in respect of basic planning data (population, labour force, consumption, rate of interest, etc.).
2. Detailed proposal of subjects for analysis of and planning for each sector.
3. Directives in respect of methodology of analysis, definitions, degree of detail and classification.
4. Proposal of detailed time schedule for the stages of analysis, which should be uniform as far as possible.

(d) The Inter-ministerial Coordination Committee will discuss the directives and will finally approve the subjects for analysis, the methodology, the degree of detail, the definitions, the order of priorities and the time schedule.

In addition, the Coordination Committee will meet at least once a month to report on the progress of the work in the different Ministries, and to discuss specific problems, submitted either by the Planning Authority or by members of the Committee or the Ministries concerned.

(e) Each Sector Planning Committee will work out a detailed proposal of a programme of work for the sector, based on the general Development Targets and on the directives approved by the Coordination Committee. It will also prepare a draft list of the priorities for the topics of analysis, of the branches to be examined within each sector, and special subjects of importance. Particular problems will be discussed and work teams will be appointed as required.

(f) The planning units in the Ministries will, in the course of their work, submit to the Sector Committee and to the Economic Planning Authority intermediate reports and drafts. The Sector Committee will follow the progress of the work and will make its comments. The Inter-ministerial Coordination Committee will, if necessary, hold discussions on special problems.

(g) The comprehensive sector programme will be submitted to the Economic Planning Authority by the Ministries, after its approval within the Ministry concerned. The Authority will comment on it, will check its compatibility with the other sector plans, its consistency with the overall Development Targets, and with the recommendations in the sphere of policy measures.

The Economic Planning Authority will hold repeated discussions with the Ministries concerned and the final proposal will be agreed upon jointly.

It will be the task of the Economic Planning Authority to integrate the final branch programmes of each sector into one overall Development Plan.

(h) An effort will be made to reconcile differences of opinion or of approach before the comprehensive Development Plan is submitted to the Cabinet Committee for Economic Planning. If no agreement has been reached, a draft will be prepared of the proposals at variance, which will be submitted to the Ministerial Committee for its decision. The sector Development Plans which will finally be submitted to the Cabinet will be agreed upon by the various Government Ministries and by the Economic Planning Authority, or, where there are points of disagreement, according to the decision of the Cabinet Committee for Economic Planning.

It should be emphasized again that all the detailed branch analyses and examinations cannot be completed during the first year; it is reasonable to asssume that during the first year these examinations be handled on general lines, at least for some of the branches of the economy. Nevertheless, it is important to start work on the preparatory stages in the immediate future, with the intention of broadening its scope and gradually deepening it.

D. Time Schedule for the Preparation of the Sector Development Plan

The following time schedule has been fixed, taking into account that branches analyses by some of the economic Ministries are already in an advanced stage.

(a) November 1963:

1. Discussion of proposed General Directives in the Inter-ministerial Coordination Committee.
2. Discussion of the General Directives in the approval of same by the Cabinet Committee for Economic Planning.
3. Setting up Branch Committees, preparation of detailed directives, list of priorities and work programmes by sectors; setting up of work teams and organization of the work with the respective Ministries (Ministries, Sector Committees, Economic Planning Authority).

(b) December 1963–February 1964:	1. Branch analyses (Ministries).
	2. Preparation of forecasts of local demand and of exports (Ministries).
	3. Beginning of work on Branch Planning (Ministries).
	4. Current follow-up, and discussion of specific problems, by Sector Committees.
(c) March–April 1964:	1. Completion of Branch Planning (Ministries).
	2. Discussion in Sector Committees.
	3. Transmission of the material to the Economic Planning Authority.
(d) May–July 1964:	1. Examination of the material by the Economic Planning Authority, inter-sectoral adjustment and consistency with recommended policy measures and Development Targets (Economic Planning Authority).
	2. Discussions with Ministries, and within the Coordination Committee and the Branch Committees, on remarks and adjustments made by the Planning Authority.
	Corrections and coordination of plans by the Ministries, in the light of the results of the work of the Economic Planning Authority and conclusions of the Coordination Committee (Ministries).
	Preparation of the overall Development Plan for the economy (Planning Authority).
(e) August 1964:	Discussions in the Coordination Committee and approval of the proposed Development Plan.
	Submission of the Plan to the Cabinet Committee for Economic Planning.

E. Directives in Respect of Basic Planning Data

1. Population and Labour Force

Development plans will be prepared on the basis of the Forecasts of Population and Labour Force, as detailed in the chapter on this subject in the Proposal of Targets (see page 4).

More detailed data on the forecasts of age and sex composition of the population, and of the composition of immigration by country of origin will be obtainable from the Economic Planning Authority.

2. Private and Public Consumption

Plans will be prepared on the assumption that private and public consumption will increase as indicated in the Proposal of Targets of the Development Plan.

3. Prices

Branch analyses and development plans will be prepared on the following assumptions, in respect of prices of goods and services:

(a) General and relative level of prices

Prices on the domestic market:

Plans will be prepared according to fixed prices pertaining to mid-1963; i.e., it will be assumed that there will be no change in relative prices on the domestic market.

Prices of imports and exports:

Prices of imports and exports in foreign currency will also be taken at mid-1963 level, except in specific cases where future changes can be assumed and forecasted quite safely (such as lower prices for citrus fruits on export markets).

(b) Definition of Prices

For the purpose of analyzing the profitability of the branches or of projects, all prices of goods and services will be estimated at factor-cost, i.e., at real prices from the point of view of the economy, excluding subsidies or taxes.

Import goods will be estimated at CIF value from the cheapest purchasing source, excluding custom dues or taxes. Where dumping prices prevail for certain goods, a reasonable price will be estimated by the respective Ministry, if there are grounds to assume that the dumping price will prevail for less than five years. If it can be assumed that the dumping

prices will prevail for five years and more, the goods have to be calculated at these prices.

The inputs purchased on the domestic market, which represent import substitutes and can be purchased abroad, will be estimated at the same price as for imported goods, i.e., at their CIF international price, at the rate of exchange of IL. 3.- a dollar, even if the domestic price for such goods is higher. (If the goods are not inferior in quality to the imported goods, their price will be estimated at the international price even if the local commodity does not enjoy the brand-name reputation of the imported commodity.)

Prices for the public services will be estimated at real costs involved in supplying the service (the price for water, for example, will be calculated at the real cost of obtaining it and bringing it to the relevant area).

For the purpose of forecasting demand, market prices will be taken.

4. Cost of Capital

The imputed interest to be applied for evaluating the cost of capital services will be 8 per cent. This rate has been fixed according to the marginal rate of interest on import of capital from abroad. This rate of interest will be used for all estimations of profitability.

In particular cases, where capital can be obtained from abroad at less than 8 per cent interest for the financing of any specific investment project, and where the financing is conditional upon the choice of that investment, the actual rate of interest payable according to the terms of the loan offered will be taken for the purpose of calculation.

The question of the rate of interest for analysis of profitability will be brought up for discussion and re-examined at one of the next meetings of the Inter-Ministerial Coordination Committee.

5. Productivity of Labour and Capital

Expected changes in labour productivity will be determined by branch or by projects under analysis. In these branches where present labour productivity is relatively low, and where expected technological or structural changes will raise productivity, the anticipated increase in productivity should be estimated and taken into account in the preparation of the branch programmes.

Changes expected in the ratio of capital utilization will be determined for the branch or enterprise concerned. A decrease in the excess production capacity should be assumed only in such cases where there is a substantial excess production capacity, and where there are sound reasons for assuming such a trend. In each case where a decrease in the excess

production capacity is assumed, the causes which brought about the excess production capacity should be located, and the extent to which it would be reasonable to assume a possible removal of such causes in future should also be indicated. In particular, the limitations of manpower and market should be investigated.

5. Forecasts of demand on the domestic market

These forecasts of final demand will be made according to income elasticities of expenditure. Those of demand for intermediate goods will be made according to input-output coefficients or engineering and other estimates.

At this stage, the elasticities and input-output coefficients prepared by the Research Department of the Bank of Israel and the engineering coefficients and other information available to the respective Government Ministries should be used.

Detailed directives for the preparation of forecasts will be issued after discussion of the subject in the Coordination Committee and after examination of the possibility of improving and bringing up to date the existing data on elasticities and coefficients.

7. Forecasts of Exports

A number of alternative export forecasts for the branch or commodity concerned will be prepared, according to a ladder of previous dollar prices. Preparing the material according to alternative dollar prices will enable the preparation of an order of expected volumes of exports, according to their economic desirability. The export forecasts will be prepared according to the following directives:

a. The possible future increase of prices of inputs (including wages) will be offset by higher productivity.

b. The progress in the organization of the European Common Market and EFTA will not damage the volume of exports from Israel. (At a later stage, when further information will be available on Common Market policy toward Israel, additional analyses will be made on the strength of different assumptions in respect of the influence of the Common Market on the volume of Israel's exports.)

8. Level of Detail and Classification

It is proposed that the branch analyses be carried out on a level of detail suitable to the needs of each sector planning unit. It will be desirable to obtain details on not less than 80 branches, for the whole economy, according to the branches classification of the Central Bureau of Statistics.

The level of detail by sectors will be as follows:

Agriculture	– about	11 branches
Minerals	– about	3 branches
Industry	– about	49 branches
Building	– about	5 branches
Electricity and Water	– about	3 branches
Transport	– about	6 branches
Services and Trade	– about	4 branches

Individual branches may be either studied together or analysed in greater detail, as the case may be, after coordination with the Economic Planning Authority.

The level of detail and classification will be finally decided upon after discussion of this matter in the Inter-Ministerial Coordination Committee.